



The Legal AI “Phoney War” and the real disruption that lies ahead.

This white paper is designed for managing partners and decision-makers in small and medium-sized law firms. It sets out what AI can already do, how it will reshape the economics of legal practice, what the evolving legal consumer now expects, and, critically, how to position your firm for what comes next.

Introduction

Between September 1939 and May 1940, Britain and France were formally at war with Germany, yet no major fighting took place on the Western Front. Troops mobilised. Defences were built. But daily life continued largely undisturbed.

This uneasy period became known as the “Phoney War.” The threat was real — but it had not yet been felt.

The legal profession finds itself in a strikingly similar position today. Artificial intelligence has arrived in legal practice. The tools exist. The capabilities are proven. Early adopters of AI are already gaining ground by offering faster response times, bringing greater value into client pricing, and earning more time to build client relationships. But for many small and medium-sized law firms, the day-to-day reality of practice has not dramatically changed. Yet.

Billing structures remain familiar, client expectations have not fully shifted, and the competitive landscape looks much as it did a few years ago.

This is the phoney war, and like its historical namesake, it will not last. When it ends, firms that failed to prepare for the impact of AI will be outmanoeuvred by those that used this window wisely.

For small and medium-sized law firms, this practical guide will help navigate the coming AI revolution, outlining why the biggest changes are yet to come and what can be done now to be prepared.

1. How AI is already making lawyers more efficient

AI is not a future promise. It is a present reality. Across the legal sector, artificial intelligence tools are performing tasks that once consumed vast amounts of fee-earner time. For firms willing to adopt them, the efficiency gains are substantial.

Document review and due diligence

AI can scan and analyse thousands of documents in a fraction of the time it would take a human team. In transactional work, due diligence exercises that once required junior lawyers to spend days in data rooms can now be completed in hours. AI-powered platforms can identify relevant clauses, flag anomalies, and categorise documents with a level of consistency that human reviewers struggle to match over long periods.

Legal research

Research tools powered by AI can surface relevant case law, statutes, and secondary sources with remarkable speed, cutting hours spent on manual research. Rather than trawling through databases, lawyers can now pose natural-language queries and receive targeted, contextualised results. The time saved is transformative for legal research.

Summarisation

AI can distil lengthy depositions, court rulings, and regulatory updates into concise, accurate summaries. This allows lawyers to absorb the substance of complex materials far more quickly, freeing them to focus on analysis, strategy, and client advice rather than wading through hundreds of pages of source material.



Contract drafting

From producing first drafts to comparing contract versions and extracting key terms, AI is accelerating the contract lifecycle. What once required a careful side-by-side review of lengthy agreements can now be automated, with AI highlighting material differences and potential risks in seconds.

KEY INSIGHT

These efficiency gains are not theoretical. They are being realised today by firms of all sizes. The question is not whether AI can make your firm more efficient, it is whether you are willing to let it.

Action points: Choose one high-volume workflow, such as document review, legal research, summarisation, or contract drafting, and pilot a closed AI tool against it for 30 days. Measure the time saved per matter, compare output quality, and use the results to build the internal business case for broader adoption across the firm.

2. The impact on legal billing and the billable hour

The billable hour has been the bedrock of law firm economics for decades. AI is now undermining its foundations quietly but decisively.

Consider the practical reality. Tasks such as reviewing document bundles or trial bundles that once took 40 hours can now be completed in two. The work is no less valuable to the client. The outcome is the same, or better. But the time recorded has collapsed. For firms that bill by the hour, the arithmetic is uncomfortable.

The emerging pressures

- Work is now significantly cheaper to perform, yet many firms have not adjusted their pricing models.
- It is harder to justify billing for tasks that clients increasingly know can be completed by AI in a fraction of the time.
- Clients, particularly those educated about AI capabilities, are already aware that fixed fees should reflect this new reality.
- Fewer lawyers are required on many matters, which means fewer billable hours and lower total fees per engagement.

THE CENTRAL TENSION

The billable hour rewards inefficiency. AI creates efficiency. Firms that cling to the former while competitors embrace the latter will find themselves losing work. Not because of quality, but because of price.

Action points: Run weekly AI Power Hour sessions, each focused on one high-impact use case (e.g., case summarisation or contract drafting). Collect self-reported time savings after each session, then aggregate results to build leadership support for a broader firm-wide rollout.



3. The evolving legal consumer

The legal consumer is changing, and AI is accelerating that change. Future clients, whether individuals or businesses, will arrive at a law firm's door better informed, more price-sensitive, and with higher expectations than ever before.

The informed client

Clients are increasingly conducting their own legal research via AI before instructing a lawyer. They arrive with a baseline understanding of their position, the relevant law, and what the range of outcomes might look like. This fundamentally changes the dynamic of the initial consultation. The lawyer is no longer the sole source of information; they must now add value beyond what the client can find independently.

Price pressure

This awareness puts direct pressure on pricing. Clients are going to be more willing to negotiate, to compare firms, and to push for fixed-fee arrangements that reflect the reduced cost of delivery. As the cost of legal work falls through AI-driven efficiencies, more clients will be able to afford legal representation, expanding the total market, but at lower price points.

Improved access to justice

There is a significant upside here. As fees reduce, legal representation becomes accessible to a wider population. People who previously could not afford a solicitor may now be able to instruct one. It becomes easier to connect those with a legal need to the right guidance, improving access to justice across the board. For firms that position themselves correctly, this represents a substantial growth opportunity.

Action points: Audit your initial consultation process and fee structures through the eyes of an informed, price-sensitive client. Redesign your first meeting to lead with strategic judgement and risk assessment rather than information delivery. Then identify one practice area where a 20–30% fee reduction through AI efficiency could allow you to charge less and onboard clients who you may have turned away more recently and pilot it for three months.

4. What should law firms do now?

The “phoney war” offers a window of opportunity. Firms that act now, while competitive pressure is still building rather than fully established, will secure a structural advantage. Here is how:

Focus on economics, not technology

The starting point is not which AI tool to buy. It is understanding where your time goes and what it costs. Get to the truth of your firm's economics: which tasks consume disproportionate time, which are low value but high volume, and where the greatest scope for efficiency lies. AI adoption should be driven by business strategy, not by enthusiasm for the latest product.

Establish governance and quality control

AI output requires supervision; treat it as you would the work of a capable but junior paralegal. Establish clear governance protocols: who reviews AI-generated work, what quality thresholds apply, and how client data is protected. Addressing data security and confidentiality concerns proactively will build client trust and reduce risk.



Invest in Legal AI tools designed for the practice of law

There is a critical distinction which exists between public, general-purpose AI tools, such as ChatGPT, Google Gemini, or Microsoft Copilot and purpose-built legal AI platforms.

When a lawyer inputs client data, case details, or privileged correspondence into a public AI tool, that information may be stored, used to train future models, or exposed in ways that breaches client confidentiality and data protection obligations.

There is also the issue of accuracy as many public AI tools will not have basic parameters around them such as jurisdictional and other matter related filters, increasing the risk of hallucinations and incorrect case law and citations being included in results.

The solution is not to avoid AI altogether, but to ensure your firm uses a closed, legal-specific AI platform where data remains within a secure environment, is not used for model training, and is subject to the access controls and audit trails that professional practice demands.

The reality is that if your firm has not provided staff with specific Legal AI tools there is a strong probability that they are already using public AI tools to conduct their work, which increases your firm's risk levels and poses a long-term risk for your firm's reputation.

Reconsider your team structure

The traditional ratio of senior lawyers to junior lawyers will change. As AI takes on tasks historically performed by trainees and junior associates, firms will need fewer junior fee-earners but more legal technologists and process-minded professionals who can manage AI tools effectively and integrate them into workflows.

Invest in volume

If profit per matter shrinks, as it will in many practice areas, firms will need a higher volume of matters to maintain revenue. Early adopters will gain a structural cost advantage, enabling them to take on more clients and matters they could not previously have afforded to service. This is where scale becomes critical.

Deepen client relationships

In a world where AI commoditises much of the production work, the enduring differentiator is the relationship. Firms that invest in deep professional knowledge, genuine client understanding, and reputational standing will retain clients even as price competition intensifies. The choice between scale and efficiency on one hand, and deep specialisation on the other, is one each firm must make deliberately.

Action points: Run a two-week time audit across the firm to identify your biggest time sinks. Draft an AI usage and governance policy within 30 days. Identify three tasks currently performed by senior fee-earners that could shift to AI-assisted workflows and reassign the freed capacity to strategic advisory work. Assess your staffing ratio and commit to hiring or upskilling at least one legal technologist within 12 months.

5. Capturing the expanding market

If AI reduces the cost of legal services and brings more clients within reach of professional advice, the total volume of legal enquiries will grow. The question for your firm is: how do you capture that growth?

Create a low-cost front door

Most people reach out to a law firm not with a defined instruction, but with a question: do I have a legal issue, and what are my options? A low-cost, flat-fee initial consultation — a 30-minute session, for example — removes the barrier to entry and gets potential clients through the door.



Deploy AI-powered self-assessment tools

Consider offering an AI-powered self-assessment tool on your website that helps prospective clients understand whether they have a legal issue and what type of advice they might need. This serves as both a lead generation tool and a genuine public service, filtering enquiries and directing them to the right part of your firm.

Create defined pathways for upselling

A low-cost initial enquiry may lead to a vastly more significant matter in the future. Think in terms of client lifetime value rather than single-matter profitability. Design your intake process to capture information, build relationships, and create natural pathways from initial advice to ongoing representation.

Automate and productise common enquiries

Identify the most common types of enquiries that your firm receives and build standardized, AI-assisted processes around them. This reduces the marginal cost of handling each enquiry and allows your fee-earners to focus on the work that genuinely requires human judgement.

Create recurring revenue

Where possible, move towards retainer or value-based models that provide clients with ongoing access to advice and create predictable revenue for the firm. This aligns incentives, improves client retention, and smooths cash flow.

Moving towards a value-based billing approach means charging your client based on the value of outcomes delivered at the end of a matter. An outcome-based law firm places emphasis on delivering successful results for the client and divorcing itself from the billable hour. The benefit here is that law firms who adopt this approach can convert gains from AI efficiency into delivering these outcomes more quickly and develop cultures driven by client satisfaction. High client satisfaction leads to loyal customers who refer work, driving new enquiries and ultimately making value-based law firms more profitable.

Respond to leads instantly

Speed of response is one of the strongest predictors of client conversion. In a market where clients are comparing multiple firms, the one that responds first and most helpfully will often win the instruction. AI-assisted intake processes can ensure that no enquiry goes unanswered, even outside business hours.

Action points: Launch a flat-fee initial consultation product within 60 days and deploy an AI-assisted intake and CRM system that allows you to respond to every enquiry within five minutes, around the clock. Analyse your enquiry data from the past 12 months, identify the three highest-volume enquiry types, and build a standardised service package for each. Design a client nurture sequence with automated follow-ups at 30, 90, and 180 days after initial enquiry or consultation, and pilot a subscription or retainer model with ten existing small business clients.

6. The role of practice management

None of the above is achievable without the right operational infrastructure. The practice management platform is the central nervous system of a law firm. AI adoption must form a coherent strategy around that system; otherwise, it will fall apart.

Avoid creating silos

Any AI tool that is not integrated with your core practice management system will create a data silo. Information will be fragmented, workflows will be duplicated, and the efficiency gains you sought will be diluted. Integration is not a nice-to-have, it is essential and will not only help improve efficiency but reduce risk of using non approved public AI tools.



Get intake right

The client journey begins at intake. Getting this right, through a CRM platform that captures enquiry data, tracks follow-ups, and routes matters to the right fee-earner, is foundational. A poorly managed intake process will leak clients regardless of how good your legal work is.

Invest in billing systems that support new models

As firms move towards flat-fee, fixed-fee, and subscription billing, the billing system must keep pace. A system that handles these models properly and enables real-time profitability analysis is a strategic necessity. If you cannot measure the profitability of a matter accurately, you cannot price it correctly.

Embrace AI-embedded practice management

The next generation of practice management tools contain Legal AI embedded into the platform at their core: drafting communications, real time legal research, generative summaries pertinent to each matter stage, insights in real time, and alerting fee-earners to risks and opportunities as they arise. Firms that adopt these platforms early will operate with a level of situational awareness and efficiency that their competitors simply cannot match.

Action points: Audit every software tool your firm uses and map the data flows between them. Any tools that do not integrate with your practice management system should be reconsidered or replaced. Alternatively, consider a practice management system that already includes the solutions you need, fully integrated within a single platform. Continuing to rely on platforms that have not invested in AI significantly, or rely entirely on third-party integrations, will not herald the change required and will leave you vulnerable to competitors who do have the tools embedded.

To get intake right, evaluate your intake process by tracking every enquiry for 30 days, measuring response times and conversion rates. Test your billing system with a flat-fee matter to confirm it can track profitability accurately, and Schedule demonstrations with a practice management platform that operates with embedded AI.

Conclusion

The phoney war in legal AI will not last forever. The tools are maturing, client expectations are shifting, and the competitive dynamics of the legal market are being rewritten. The firms that will thrive are not necessarily the largest or the most technologically sophisticated, they are the ones that act with clarity, purpose, and urgency during this window of relative calm.

The steps are clear: understand your economics, adopt AI where it delivers genuine value, rethink your service delivery model, invest in practice management infrastructure which embeds AI into your way of working, and position your firm to capture the expanding market that lower-cost legal services will create.

The phoney war is a gift. It gives you time to prepare while the pressure is still building. Use it wisely. Because when the real war begins, the firms that prepared will advance, and those that did not will be left behind.

This white paper is intended as general guidance for law firm leaders. It does not constitute legal, financial, or technology advice. Firms should seek appropriate professional counsel when making strategic decisions about AI adoption and business transformation.



About the author

John Espley is Chief Executive Officer of the LEAP Group and a longstanding leader in legal technology. With more than 20 years of industry experience and over a decade at LEAP, he has played a pivotal role in the company's growth across international markets, leading commercial expansion, product development, and key strategic acquisitions. John is passionate about advancing the digital transformation of law firms and helping legal professionals realise the full value of modern technologies.

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